

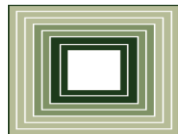
**Joint Meeting of House and Senate Appropriations
Committees on General Government**

Department of Insurance

Department & Budget Overview

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FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Presentation Outline

- Background
- Department & Budget Overview
 - Statutory Duties & Responsibilities
 - Budget Overview
- Selected Divisions/Programs
 - Statutory Duties & Responsibilities
 - Budget Overview
- Budget & Fiscal Issues

Background

National Picture

- In 2019 there were 5,965 insurance companies in the U.S.:
 - 2,496 property & casualty companies
 - 952 health companies
 - 837 life/annuities companies
 - 1,637 other companies (such as risk retention and title)
- Revenues collected increased 4.7% to \$26.9 billion
- Received 270,000+ official complaints and almost 1.6 million inquiries

North Carolina

- In 2019 there were 94 insurance companies domiciled in the State:
 - 50 health companies
 - 55 property & casualty companies
 - 10 life/annuities companies
 - 9 other companies (such as risk retention and title)
- Tax revenue collected: \$553.7 million
- Received 10,621 official complaints and almost 144,000 inquiries

Background

- Majority of insurance commissioners are appointed; 11 are elected
- Most state insurance departments are separate, standalone agencies focusing largely on insurance regulation
- State insurance commissioners may also serve as fire marshal, state auditor and commissioner of securities

NC Insurance Department in Context

Description	Amount	State Rank	% of US Total
Total Taxes	\$ 553,678,933	11	2.47%
Total Revenue	\$ 604,005,768	14	2.24%
Total Budget	\$ 48,887,856	7	3.20%
Total Employment	436	5	4.02%
Total Inquiries	143,763	5	9.21%
Total Complaints	10,621	6	3.91%
SOURCE: NAIC Insurance Department Resources Report, 2019			

North Carolina Department of Insurance

Agency and Budget Overview

Statutory Duties & Responsibilities

- NC State Constitution, Article III
 - Established elected office of **Insurance Commissioner**
 - Duties are delegated by the General Assembly (Section 7)
 - Member, Council of State (Section 8)

Statutory Duties & Responsibilities

Chapter 58

- Department established in 1899
- State's regulatory body over the insurance industry
- Chief of State Volunteer Fire Department
- Other duties include:
 - Regulating bail bondsmen, motor clubs & collection agencies
 - Protecting consumers from fraud and illegal behavior
 - Educating citizens about safety issues
 - Interpreting the State's building codes
 - Managing insurance coverage for all State-owned buildings
 - Assisting citizens with Medicare and Medicaid questions

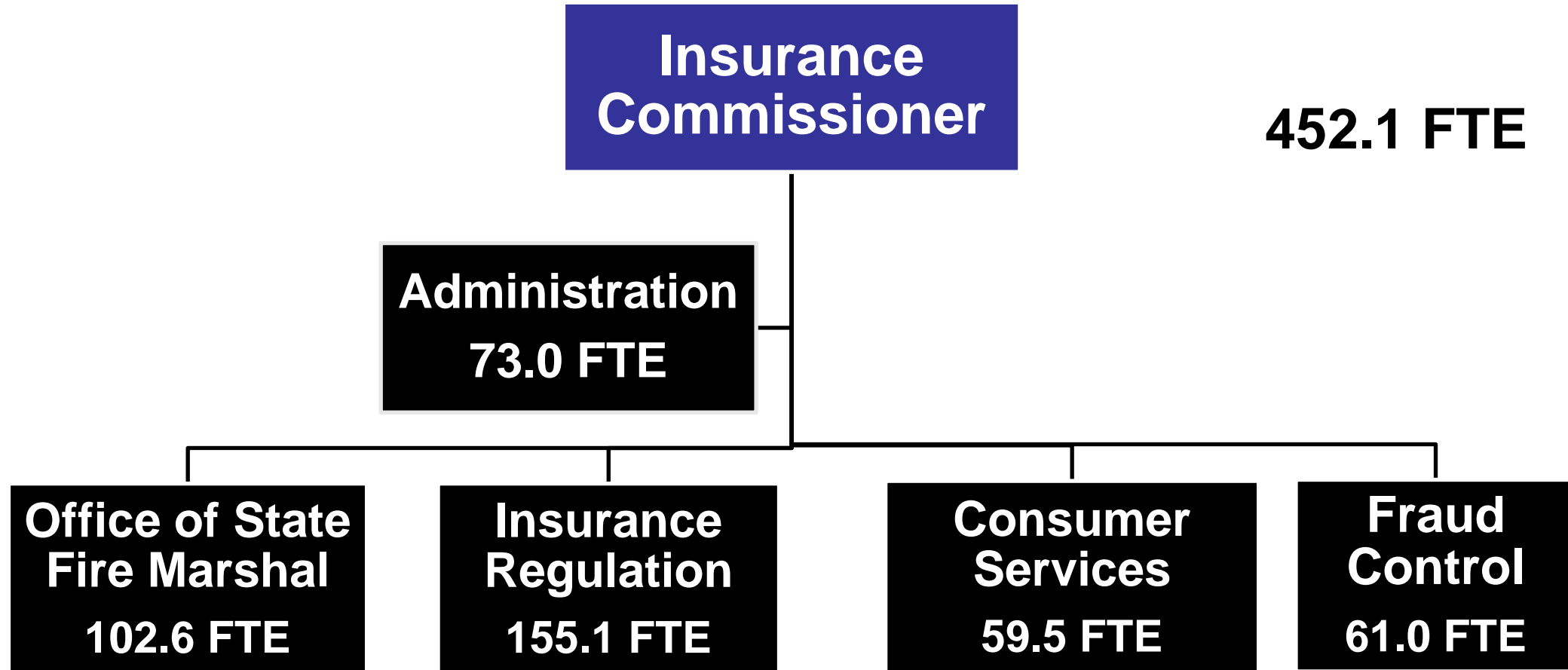
Department of Insurance

FY 2020-21 Authorized Agency Budget In Context

Agency	Requirements	Receipts	Net Appropriation	Req. %	FTE
Department of Administration	\$ 65,350,938	\$ 75,452,581	\$ 65,615,439	9.3%	346
Office of State Human Resources	9,271,905	194,801	9,077,104	1.3%	64
Ethics Commission	1,094,239	69,700	1,024,539	0.2%	10
Office of Administrative Hearings	7,800,795	1,260,671	6,540,124	1.1%	56
Office of State Auditor	21,323,117	6,514,703	14,808,414	3.0%	160
Office of State Budget & Management	8,897,138	131,780	8,765,358	1.3%	55
OSBM Special Appropriations	8,603,000	-	8,603,000	1.2%	0
Office of the State Controller	25,742,217	814,142	24,928,075	3.7%	167
State Board of Elections	7,604,808	102,000	7,502,808	1.1%	66
NC General Assembly	74,667,502	561,000	74,106,502	10.7%	540
Office of the Governor	6,475,569	898,760	5,576,809	0.9%	52
Housing Finance Agency	30,660,000	-	30,660,000	4.4%	0
Department of Insurance	51,906,578	8,358,700	43,547,878	7.4%	452
NC Industrial Commission	23,210,603	13,567,849	9,642,754	3.3%	146
Lieutenant Governor	927,695	-	927,695	0.1%	7
Department of Military & Veterans Affairs	68,987,631	59,415,186	9,572,445	9.8%	92
Department of Revenue	172,477,966	80,698,497	91,779,469	24.6%	1463
Department of Secretary of State	14,988,522	362,357	14,626,165	2.1%	179
Department of State Treasurer	67,840,591	62,895,934	4,944,657	9.7%	398
DST - Line of Duty Benefits	33,220,423	1,200,000	32,020,423	4.7%	0
TOTALS	\$ 701,051,237	\$ 312,498,661	\$ 464,269,658	100.0%	4,253

Source: Fiscal Biennium 2021-23 Base Budget Worksheet Is, Office of State Budget & Management

Department of Insurance
Organizational Chart



Source: FY 2019-20 Authorized Budget, Worksheet I

Department of Insurance

General Fund Budget

<u>Budget Summary</u>				
	Actual FY 2019-20	Certified FY 2020-21	Authorized FY 2020-21	Base FY 2021-22
Requirements	50,336,770	51,806,578	51,906,578	52,066,118
Receipts	9,146,715	8,258,700	8,358,700	8,358,700
Net Appropriations	41,190,055	43,547,878	43,547,878	43,707,418
FTE	453.1	452.3	452.1	452.1

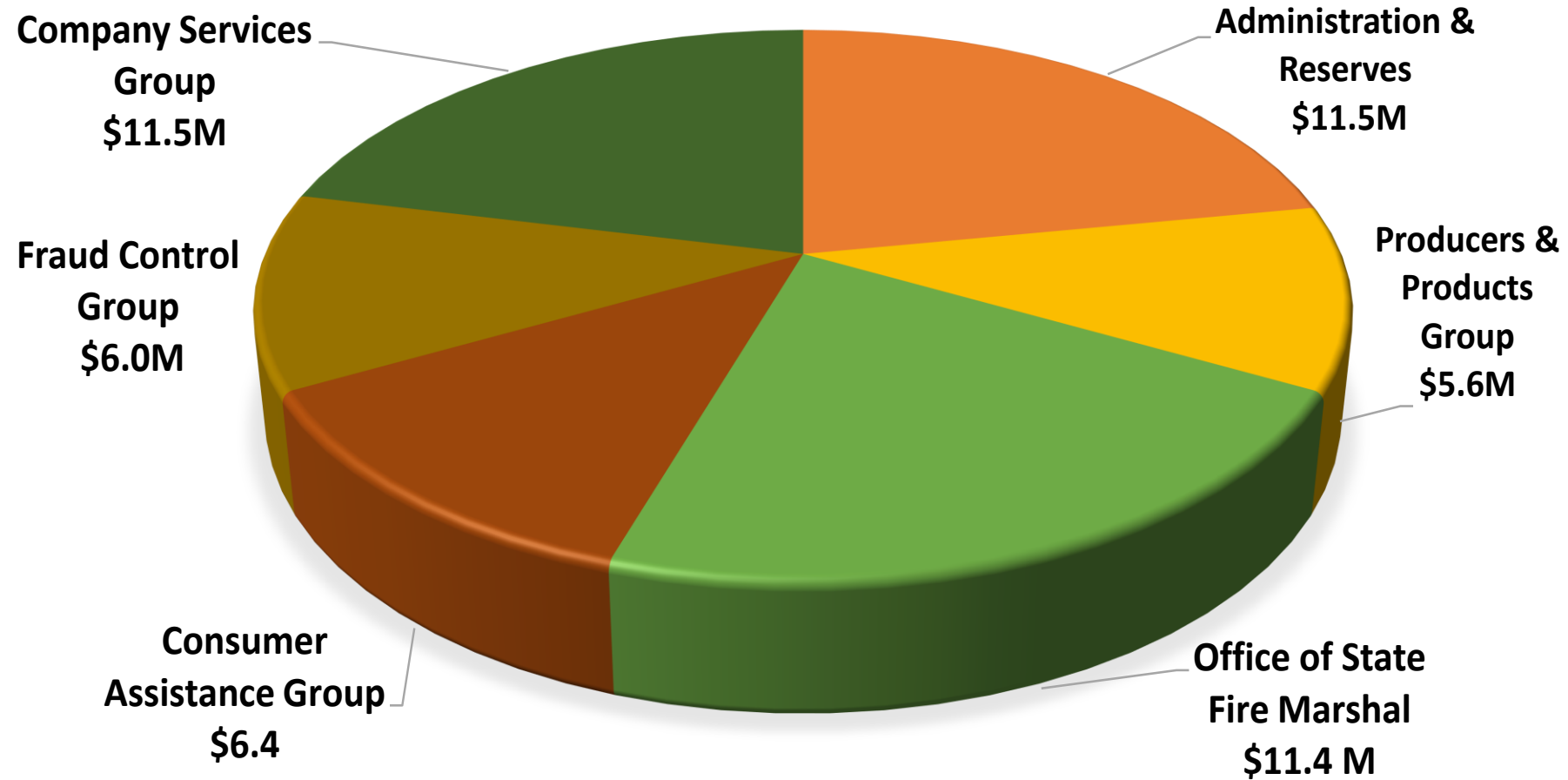
Sources of Receipts

- Business license, certification fees
- Receipts from special funds
- Federal grants

Department of Insurance

Total Budget Requirements by Division

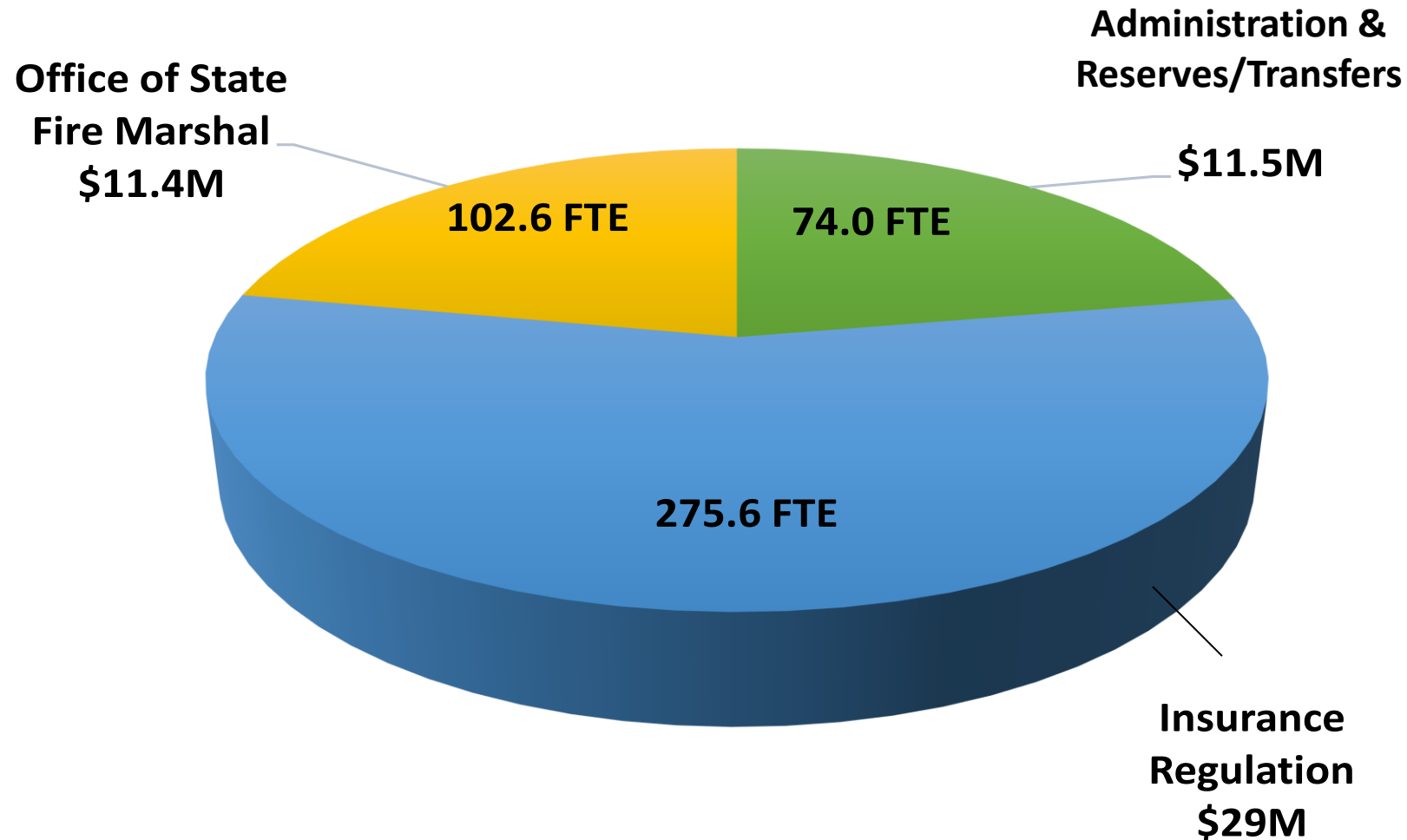
FY 2020-21 Authorized Budget, \$51.9M



Department of Insurance

Total Requirements by Function

FY 2020-21 Authorized Budget, \$51.9M



Department of Insurance
Reversion History

Budget Code 13900	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	5-year average
	\$2,149,779	\$ 1,961,353	\$ 2,553,409	\$ 998,243	\$ 983,987	\$ 1,729,354
Percentage of Net Appropriations	5.9%	4.8%	6.9%	2.5%	2.4%	4.4%

Key takeaways

- Reversions are usually the result of vacant positions
- DOI average reversions exceed Statewide averages

Department of Insurance

General Fund & Special Fund Collections

Collections	Actual FY 2015-16	Actual FY 2016-17	Actual FY 2017-18	Actual FY 2018-19	Actual FY 2019-20
¹ Insurance Taxes	\$485,088,157	\$492,097,802	\$566,105,324	\$ 553,678,933	\$ 656,153,555
² Insurance Regulatory Charge	\$ 35,968,538	\$ 50,013,671	\$ 46,679,272	\$ 47,244,998	\$ 33,559,528
³ Nontax Revenue	\$ 33,168,763	\$ 35,930,403	\$ 36,210,070	\$ 40,398,076	\$ 41,275,546

Notes:

¹Tax levied pursuant to Chapter 105

²6.5% assessment on most insurance premiums to offset the cost of regulation

³Funds deposited in State's General Fund to offset most of the cost of DOI budget

Key Components of Insurance Regulation & NC Insurance Regulation Budget Overview

Insurance Regulation

Singular purpose of insurance regulation is to protect consumers

Accomplished through:

- Licensure
- Product Regulation
- Financial Regulation
- Market Conduct Regulation
- Fraud Control
- Consumer Services

Insurance Regulation

<u>Budget Summary</u>				
	Actual FY 2019-20	Certified FY 2020-21	Authorized FY 2020-21	Base FY 2021-22
Requirements	14,549,129	17,056,241	16,700,797	16,759,847
Receipts	1,556,685	2,066,673	2,066,673	2,066,673
Net Appropriations	12,992,445	14,989,568	14,634,124	14,693,174
FTE	157.1	158.1	155.1	155.1

- Key functions include company & producer licensing, product regulation, market conduct, and financial regulation
- Regulatory authority: Chapter 58
- Source of receipts: filing and application fees

Insurance Regulation

System of Insurance Regulation

- Insurance is a state, national and international business
- US insurance industry is regulated by states
- All states participate in an accreditation program to ensure that each state follows minimum standards
- State's generally delegate certain responsibilities to other states
- States rely on fellow state insurance regulators

Insurance Regulation

National Association of Insurance Commissioners (NAIC)

- Created and governed by State insurance commissioners and chief insurance regulators
- Member states working with NAIC form the national system of state-based insurance regulation
- National standard-setting, regulatory support and peer review
- Online portal and system designed to expedite review and approval of filings and reduce the amount of paperwork for companies and states

Insurance Regulation

Licensing

Agent Services

- Administer licensure of all insurance producers, companies, adjusters, appraisers, collection agencies, motor clubs & others
- Ensure licensee compliance
- Develop and administer continuing education requirements

Licensing Statistics¹

- 286,206 individual licenses
- 2,882 brokers
- 95,144 adjusters
- 1,950 bail bondsmen
- 16,302 businesses

Source: ¹NAIC Insurance Departments Resources Report, 2019

Insurance Regulation

Product Regulation

Property & Casualty

- Review all insurance product filings (policy contracts, rates & rules)
- Use a proactive approach with industry to avoid delays in processing filings
- 5,338 filings (2020)
- Goal to complete filings \leq 60 days

Insurance Regulation

Licensing

Life & Health

- Review all life, health, accident, credit, long-term care, Medicare Supplement product filings and others
- Filings received on a daily basis
- 4,722 filings (2019)
- Proactive approach with industry
- “Speed to market” goal to dispose of filings within 60 days

Insurance Regulation

Financial Regulation

Company Services

- Conduct periodic review of all NC-based insurance company financials
 - Accounting methods, procedures & financial statements
 - Verification of the company's solvency
 - Compliance with State laws and regulations
- Financial examinations must be completed at least every five years (G.S. 58-2-131)
- 24 financial exams completed in 2019

Insurance Regulation

Financial Regulation

What happens when an insurance company is determined to be financially impaired?

Insurance Commissioner may assume control of company assets in order to operate the company in the best interest of the policyholders and other creditors.

- If the company can be saved, then **rehabilitation** (by court order) occurs. The company is reorganized & may be allowed to continue/resume writing new policies
- If rehabilitation is not able to restore the company's financial health, then liquidation occurs:
 - Company assets are sold
 - Outstanding claims must be paid, or business must be assumed by a solvent company
 - Company's estate is closed

Insurance Regulation

Financial Regulation

Recent regulatory action:

- 3 affiliated life insurers were placed (and remain) in rehabilitation in 2019 (supervision was initiated in 2018)
- One life insurer placed into rehabilitation in 2018 remains

Insurance Regulation

Financial Regulation

Example of Intervention – Receivership: North Carolina Mutual Life Insurance Company

- Based in Durham, North Carolina. Founded in 1898
- Life insurance, accident and health products and annuities
- Placed into rehabilitation December 2018
- Trigger: Reinsurance transaction in which the assets securing the transaction were misappropriated by the investment manager
- Until assets are recovered and company's financial condition stabilizes, NC Mutual will remain in receivership

Insurance Regulation

Market Regulation

Market Conduct

- Regular analyses and examinations of how an entity is conducting its business such as:
 - Market and sales practices
 - Claim handling
 - Compliance with State laws and regulations
 - Other insurer market-related operations

Insurance Regulation

Captives Insurance

- A form of self-insurance
- 6.0 FTE
- 246 filings (2019)*
- ~\$3 million in tax revenue
- ~90% of Fortune 500 companies have captive subsidiaries**

Sources:

*NAIC Insurance Department Resources Report, 2019

**NAIC (tinyurl.com/NAIC-captives)

2017 Legislative Action:

Funds appropriated for 3 FTE to develop and provide oversight of the Captives insurance market (S.L. 2017-57)

Consumer Services

<u>Budget Summary</u>				
	Actual FY 2019-20	Certified FY 2020-21	Authorized FY 2020-21	Base FY 2021-22
Requirements	6,517,405	6,393,294	6,382,837	6,382,837
Receipts	3,076,783	2,616,266	2,616,266	2,616,266
Net Appropriations	3,440,622	3,777,028	3,766,571	3,766,571
FTE	59.5	59.5	59.5	59.5

- Receives and resolves complaints from consumers
- Educates consumers on Medicare and related insurance matters
- Source of receipts: federal grants

Consumer Services

SmartNC

- Receives and processes complaints from consumers with health insurance coverage issues related to:
 - NC State Health Plan
 - Private health insurance
 - Self-funded plans
- If necessary, initiates an external review of consumer-insurer complaints via contracts with outside independent review organizations

Consumer Services

Seniors' Health Insurance Information Program (SHIIP)

Provides health benefits counseling for Medicare beneficiaries and their families or caregivers

- Originally established in 1986; G.S. 58-2-31
- Located in all counties; supported by about 1000 coordinators and volunteers
- Partially funded by federal grant
- Operates NC Senior Medicare Patrol, which educates beneficiaries on fraud, waste, and abuse
- Assists consumers with Medicare inquiries and complaints

Consumer Services

Seniors' Health Insurance Information Program (SHIIP)

- Network of SHIIP staff and volunteers assisted 62,000+ beneficiaries (2020)
- Staff responded to 29,029 calls and resolved 646 complaints (2020)
- Saved beneficiaries \$40.4+ million

Consumer Services

Other Insurance Areas

- Receives and processes complaints from consumers with other insurance coverage issues related to:
 - General insurance inquiries/complaints
 - Property and Casualty
 - Life and Health
- If necessary, refers consumer complaints to other divisions
- Processed 43,389 calls and 9,072 complaints (2019)
- Administers “lost life policy locator” initiative

Fraud Control

- Insurance fraud occurs when:
 - An insurance company, agent, adjuster or consumer commits a deliberate deception in order to obtain an illegitimate gain
 - False or exaggerated claims are filed by policyholders
- Federal Bureau of Investigation estimates that the total cost of insurance fraud (excluding health insurance) is more than \$40 billion per year in the US; Insurance fraud costs the average U.S. family between \$400 and \$700 per year.¹

¹<https://www.fbi.gov/stats-services/publications/insurance-fraud>

Fraud Control

<u>Budget Summary</u>				
	Actual	Certified	Authorized	Base
	FY 2019-20	FY 2020-21	FY 2020-21	FY 2021-22
Requirements	5,711,230	5,801,291	5,951,522	5,994,167
Receipts	120,485	60	60	60
Net Appropriations	5,590,746	5,801,231	5,951,462	5,994,107
FTE	59	58	61	61

Conducts criminal investigations into insurer and consumer fraud

Recent Legislative Action

S.L. 2017-57 increased appropriations by \$2.5M (recurring) for up to 30 FTE to investigate fraudulent insurance activities

Fraud Control

- Sworn law enforcement officers
- 90% of cases come from consumers via online reporting system
- Statewide jurisdiction
- Operate under an MOU with Conference of District Attorneys
- Most staff are field-based
- Piedmont Regional office
- Use NAIC uniform fraud reporting system
- Administer bail bond laws

Office of State Fire Marshal

Chapter 58, Article 80: Created State Volunteer Fire Department in 1939 and designated the Commissioner of Insurance as chief in 1985

Responsibilities: Fire and rescue (training/certifications, investigations and grants management), engineering (building, manufacturing & risk management) and grants administration

Recent Legislative Action: \$376K for 3 FTE for fire department inspections and 2 FTE to investigate suspicious fires (S.L. 2017-57)

	Actual FY 2019-20	Certified FY 2020-21	Authorized FY 2020-21	Base FY 2021-22
Requirements	11,074,089	11,235,023	11,359,564	11,359,564
Receipts	3,920,712	3,484,437	3,584,437	3,584,437
Net Appropriations	\$ 7,153,376	\$ 7,750,586	\$ 7,775,127	\$ 7,775,127
FTE	102.6	102.6	102.6	102.6

Source of Receipts:

- Certification, license, and inspection fees
- Earmark of taxes on gross premiums

Office of State Fire Marshal

Engineering Services

- Administers State Building Codes
- Certifies code and home inspectors
- Licenses manufactured housing dealers, set-up contractors and salespersons
- Inspects all State-owned facilities for fire and safety
- Administers State Property Fire Fund
- Staff to various statutory bodies such as:
 - NC Building Code Council G.S. 143-136
 - Manufactured Housing Board

Office of State Fire Marshal

Fire & Rescue Services

- Trains and certifies firefighters and rescue personnel
- Inspects fire departments
- Assists State and local agencies with fire investigations
- Staff to Fire and Rescue Commission and related boards
- Staff to Volunteer Safety Workers' Compensation Fund

Office of State Fire Marshal

Fire & Rescue Commission

- Authorizing law: Chapter 58, Article 78
- 15 members: 12 appointed by Insurance Commissioner, 1 Governor, and 2 General Assembly
- Establishes standards and certification for volunteer safety workers
- Administers Volunteer Safety Workers' Compensation Fund
- Staffed by 7.0 FTE
- Meets quarterly
- Oversees boards for certification of firefighters, rescue personnel and investigators and administration of Volunteer Safety Workers' Compensation

Office of State Fire Marshal

State Support for Volunteer Fire and Rescue

Firefighters:

- **Volunteer Fire Department Fund** (G.S. 58-87-1)
- **Statewide Firefighters' Relief Fund** (G.S. 58-85-5)

Rescue/EMS:

- **Rescue Squad Workers' Relief Fund** (G.S. 58-88-5)
- **Volunteer Rescue/EMS Fund** (G.S. 58-87-5)

Volunteer Safety Workers' Compensation Fund

Office of State Fire Marshal

Volunteer Fire Department Fund

Budget Code 23900, Fund 2133	Actual ¹ FY 2019-20	Certified FY 2020-21	Authorized FY 2020-21	Base FY 2021-22
Expenditures	8,493,727	7,430,425	7,430,425	7,430,425
Receipts	6,424,511	7,430,425	7,430,425	7,430,425
Change in Fund Balance	(2,069,216)		-	-
Cash Balance, June 30	\$11,748,096			
Note: ¹ \$2,362,683 deposited in FY 2020-21 from prior year collections (delayed due to COVID-19)				

- Established: Chapter 58-87-1
- Provides grants to assist volunteer fire departments across the State
- Source of receipts: Surcharge on certain gross premiums taxes (G.S. 105-228.5) and interest income

Office of State Fire Marshal

Volunteer Fire Department Fund

Grant Program

- Grants may not exceed \$30,000
- One grant per fiscal year
- Matching requirements vary depending on the amount of local funds
- Awards announced May 15
- Up to 1% may be used for administration

Uses include:

- Equipment purchases & associated highway use taxes
- Retrofit of property acquired from the Department of Defense
- Capital expenditures

Office of State Fire Marshal

Volunteer Fire Department Fund

FY 2019-2020 Grant Cycle

- 622 applications submitted
- 504 fire departments were awarded grant funding
- 65 applications either withdrew their applications or didn't complete the application in the allotted timeframe
- 86 counties received grant funding
- Grant awards ranged from \$1,843 to \$30,000
- Average grant amount was \$16,947

Office of State Fire Marshal

Volunteer Safety Workers' Compensation Fund

	Actual	Certified	Authorized	Base
Budget Code 63902	FY 2019-20	FY 2020-21	FY 2020-21	FY 2021-22
Total Requirements	8,472,628	14,599,239	14,599,239	14,599,239
Total Receipts	14,738,159	14,599,239	14,599,239	14,599,239
Change in Fund Balance	\$6,265,531	-	-	-
Cash Balance, June 30	\$44,479,567			

- Expendable trust fund; established in 1996
- G.S. 58-87-10(b)

Office of State Fire Marshal

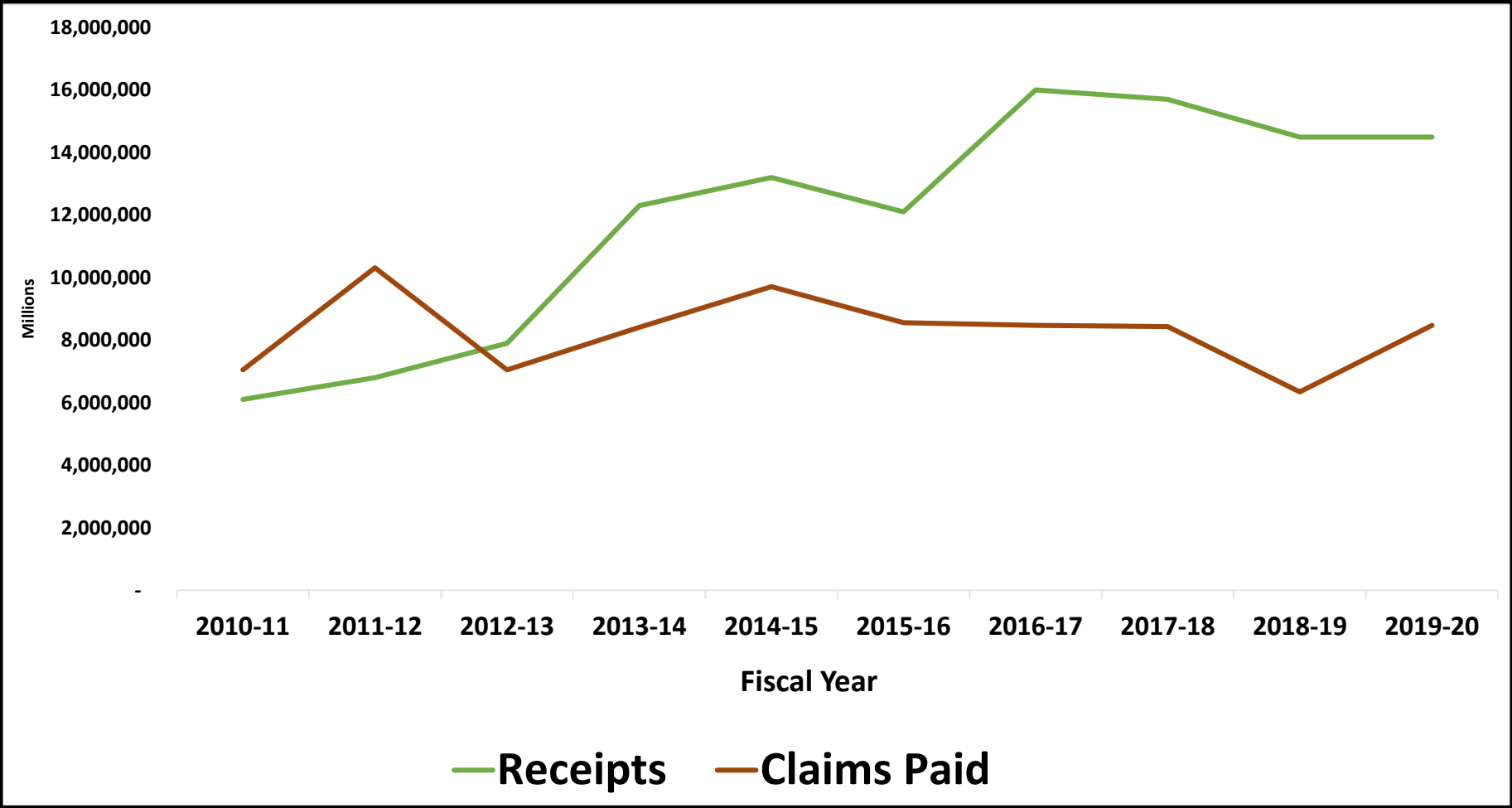
Volunteer Safety Workers' Compensation Fund

- Funded by a portion of the proceeds of the tax levied under G.S. 105-228.5(d)(3) and payments by participating entities and units
- Participants are from eligible fire department or rescue/EMS entities and units; units must not be part of a unit of local government and must also be exempt from NC income tax
- Financial support for sickness contracted, injury or death while in the performance of duties
- Annual actuarial study mandated to determine funding and set adequate level of reserves (G.S. 58-87-10)

Office of State Fire Marshal

Volunteer Safety Workers' Compensation Fund

History of the Fund



Budget and Fiscal Issues for Consideration



Department of Insurance

Budget and Fiscal Issues for Further Consideration

1. Volunteer Safety Workers' Compensation Fund

Budget Code 63902	Actual 2015-16	Actual 2016-17	Actual 2017-18	Actual 2018-19	Actual FY 2019-20	Authorized FY 2020-21	Base FY 2021-22
Total Requirements	8,554,617	8,471,030	8,431,928	6,344,384	8,472,628	14,599,239	14,599,239
Total Receipts	12,138,200	15,961,620	15,697,895	14,490,595	14,738,159	14,599,239	14,599,239
Change in Fund Balance	\$3,583,583	\$7,490,590	\$7,265,967	\$8,146,211	\$6,265,531	-	-
Cash Balance, June 30	\$15,642,372	\$23,132,962	\$30,398,929	\$38,545,144	\$44,479,567		

- Cash balance is increasing.
- G.S. 58-87-10 requires transfers to follow actuarially determined level of reserves

Department of Insurance

Budget and Fiscal Issues for Further Consideration

1. Volunteer Safety Workers' Compensation Fund

- Administration of the Fund

G.S. 58-87-10(g) Allocation of Taxes. – The study conducted under subsection (f) of this section shall be reviewed by the Office of State Budget and Management. On or before March 1 of each year, the Office of State Budget and Management, in consultation with the Department of Insurance, must notify the Secretary of Revenue of the amount required to meet the needs of the Fund, as determined by the study, for the upcoming fiscal year. The Secretary of Revenue shall remit that amount, subject to the twenty percent (20%) limitation in G.S. 105-228.5(d)(3), to the Fund.

Recent Actuarial Reports indicated reserves should be:

2018

\$22.3 million

2019

\$21.7 million

2020

\$22.4 million

Department of Insurance
Budget and Fiscal Issues for Further Consideration

1. Volunteer Safety Workers' Compensation Fund

Consideration could be given to addressing administration of the Volunteer Safety Workers' Compensation Fund:

1. Evaluating current benefit levels for beneficiaries
2. Adjusting participating units' or entities' premiums
3. Adjusting statutory transfers from tax revenue

Department of Insurance
Budget and Fiscal Issues for Further Consideration

2. Volunteer Fire Department Fund

- Increasing cash balances
- Policies and criteria for awards

Volunteer Fire Department Fund

Budget Code 23900, Fund 2133	Actual 2010-11	Actual 2011-12	Actual 2012-13	Actual 2013-14	Actual 2014-15
Expenditures	7,458,584	7,586,134	8,443,279	8,894,160	9,883,359
Receipts	8,337,823	8,930,839	10,607,629	8,417,361	6,474,024
Change in Fund Balance	\$ 879,239	\$ 1,344,705	\$ 2,164,350	\$ (476,799)	\$ (3,409,335)
Cash Balance, June 30	\$14,844,317	\$16,189,023	\$18,353,372	\$17,876,574	\$14,467,239

Budget Code 23900, Fund 2133	Actual 2015-16	Actual 2016-17	Actual 2017-18	Actual FY 2018-19	Actual ¹ FY 2019-20
Expenditures	9,113,322	6,924,320	7,667,981	7,371,341	8,493,727
Receipts	6,175,491	8,392,324	7,720,920	8,138,302	6,424,511
Change in Fund Balance	\$ (2,937,831)	\$ 1,468,004	\$ 52,939	766,961	(2,069,216)
Cash Balance, June 30	\$11,529,408	\$12,997,412	\$13,050,351	\$13,817,312	\$11,748,096
Note:					
¹ \$2,362,683 deposited in FY 2020-21 from prior year collections (delayed due to COVID-19)					

Department of Insurance
Budget and Fiscal Issues for Further Consideration

2. Volunteer Fire Department Fund

Consideration could be given to the grant program policies and administration by:

1. Conducting a review of grant award amounts and criteria in Chapter 58, Article 87
2. Evaluating current law and administration in order to identify areas to streamline practices and procedures

Questions?

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